

**SPECIAL ALERT**  
**MUTUAL FUND HOUSE TRADING PRACTICES**  
**Updated May 3, 2004**

Dear Nationwide Plan Sponsor:

You undoubtedly are aware of investigations into the trading practices of the mutual fund industry. New allegations seem to be revealed daily. Nationwide continues to monitor the investigations, looking at factors that affect the future prospects of funds and fund companies.

**What the probes are about**

1. **Late trading** – This is an illegal practice that occurs when trades are placed after the close of the market (4 p.m. EST) at that day's price and with full knowledge of the day's market activity.
2. **Market Timing** – This is the practice of short-term or rapid trades that allow investors to profit from the inefficiencies in the way funds are priced. While this practice is not itself illegal, excessive or frequent trading is often restricted by the fund's prospectus and can adversely impact fund performance and long-term investors.

**How Nationwide is responding**

Nationwide is monitoring developments in the industry and at specific fund companies. In light of the ongoing investigations, we are involved in the following:

- Stepping up ongoing communication between our Investment Research & Analysis group and employees at mutual fund companies. We are conducting conference calls, reviewing company statements, meeting with fund company representatives and visiting fund company offices.
- Conducting due diligence with certain mutual fund firms that have been named in these investigations. This includes conference calls and site visits at the mutual fund companies. More specific information on the mutual fund firms begins on page 3 of this letter.
- Monitoring industry developments that include proposals by industry associations, regulators and members of Congress to address mutual fund trading abuses.

Our Investment Research & Analysis group has placed certain mutual fund firms or products on "watch". Watch status is one of intensified due diligence as a result of deviation from the basic tenets upon which original selection was based.

We have placed the Putnam International Fund, managed by the Putnam International Team, on watch status. Additionally, we have placed the Strong Capital Management organization on watch status. Your plan may include some of those funds or companies.

**We're helping your participants – and you**

Quite naturally, your employees have questions. There is a lot of public information available about the situation, and we encourage participants to gather all of the facts before making decisions about their long-term investments.

Legislators and industry regulators also want to act. To date, several recommendations have been proposed that, if adopted, could alter the administration of these plans. Nationwide is actively meeting with regulators, legislators, and others to help educate them on the issues and how they affect public sector retirement plans.

For example, the SEC is examining whether new rules or rule amendments to include a "firm" 4:00 p.m. deadline for mutual fund trades to be reported to the fund or the fund's transfer agent would help prevent abuses from continuing. Unfortunately, this type of rule would create two distinct classes of mutual fund purchasers. Your retirement plan participants would be adversely affected by the inequities of such a rule.

Nationwide executives are actively meeting with legislators and regulators concerning the issues and proposed solutions surrounding these investigations and proposals, and how they may impact plan sponsors and participants. Representatives from Nationwide have met with SEC staff, Department of Labor representatives, and members of Congress and their staffs to discuss the mutual fund situation.

### **The situation remains fluid**

We expect more news is in the offing. If we discover information that requires a response, we will act quickly and decisively.

In the future, we will publish updates concerning this industry issue on the Employer page of our Web site, [www.NRSFORU.com](http://www.NRSFORU.com), rather than sending letters by U.S. Mail.

We also are e-mailing information to plan sponsors regularly. We will gladly add you to our e-mail list. Just send your request by e-mail to [NRSFORU@nationwide.com](mailto:NRSFORU@nationwide.com) and include:

- Your name
- Your title
- Your e-mail address
- Your phone number (for verification purposes)
- In the Subject line, please type: "Request for plan sponsor e-mails"

Sincerely,

Nationwide Retirement Solutions



### ***Fund Company Updates***

#### **Alliance Capital Management L.P. (Updated 12/19/03)**

Alliance Capital is cooperating with the Securities and Exchange Commission (SEC) and the Office of the New York State Attorney General (NYAG) in connection with their ongoing investigations of short-term trading in mutual fund shares. Alliance Capital's own investigation into this matter, under the direction and oversight of the special committee comprised of its independent directors, is ongoing and Alliance Capital will take additional actions as warranted.

That investigation had identified a number of market timing relationships, information about which had already been shared by the SEC and the NYAG. On September 30, 2003, Alliance Capital suspended Gerald Malone, portfolio manager of the AllianceBernstein Technology Fund and hedge fund marketer Charles Schaffran in conjunction with this matter. Alliance Capital also announced on November 10, 2003, that John D. Carifa resigned his positions as President, Chief Operating Officer and Director of Alliance Capital and as Chairman of the Board for its mutual funds. In addition, Michael J. Laughlin has resigned as Chairman of Alliance Capital's mutual fund distribution unit.

On December 18<sup>th</sup>, 2003, Alliance Capital reached terms with the NYAG and the staff of the SEC for the resolution of regulatory claims with respect to market timing in some of its mutual funds. The agreement with the SEC is reflected in an Order of the Commission. The agreement with the NYAG is subject to final, definitive documentation.

Under both the SEC and NYAG agreements, Alliance Capital will establish a \$250 million fund to compensate fund shareholders for the adverse effects of market timing in some of its mutual funds. Of the \$250 million fund, the agreements characterize \$150 million as disgorgement and \$100 million as a penalty. The agreement with the NYAG also includes a weighted average reduction in fees of 20% on Alliance Capital's U.S. long-term open-end retail funds, commencing January 1, 2004, for a minimum of 5 years.

Under both agreements, Alliance Capital's Mutual Funds Boards, the majority of which have already moved to elect independent chairmen from among their independent directors, will also have independent directors that comprise at least 75% of each Board, and will add a senior officer and any needed staff to assist the Boards in their oversight of compliance, fiduciary issues and conflicts of interest.

For additional information on Alliance Capital, please visit their Web site at [www.alliancecapital.com](http://www.alliancecapital.com).

**Bank One (Updated 11/14/03)**

In September, the New York Attorney General announced an inquiry into trading practices at a number of mutual fund companies, including the One Group<sup>®</sup> Mutual Funds. Bank One is cooperating fully with the Attorney General, the SEC and other regulators in this inquiry.

Bank One's own internal review has indicated that over 11 months the Canary Partners hedge fund was given permission to trade 11 One Group Funds more frequently than other customers. Their trading ended in May, 2003. Bank One continues to review this matter and has committed that it will make full restitution if any One Group investors were harmed as a result of improper conduct by any Bank One employee.

Bank One's internal review also has addressed after-market trading. They have found no evidence of Bank One or Bank One employees making the type of after-market trading arrangements that have been alleged at other institutions.

For additional information on One Group Mutual Funds, please visit their Web site at [www.onegroup.com](http://www.onegroup.com).

**Columbia Management (Updated 3/15/04)**

Columbia Management (CMA) has identified a limited number of investors that were permitted to engage in trading fund shares through informal arrangements with Columbia from 1998 to 2003. These arrangements do not exist today. If it is determined that any investors were harmed through these actions CMA will reimburse them.

It was also determined that a Columbia portfolio manager engaged in frequent trading through his 401(k) account in the fund that he managed, as well as funds managed by others employed by Columbia. The manager's employment has been terminated. If it is determined that this caused harm to shareholders CMA will reimburse them.

Information on the informal trading arrangements and the frequent trading by the manager have been supplied to the SEC and the New York Attorney General as part of requests for information. Recently the SEC advised Columbia Management that they have reached a preliminary decision to recommend that the SEC bring civil enforcement actions, including injunctive proceedings, against Columbia. Columbia is engaged in discussions with the SEC to reach a resolution to these matters.

On March 15, 2004, FleetBoston Financial announced an agreement in principle with the SEC and the New York Attorney General to pay \$140 million to settle charges involving market timing in Columbia mutual funds. Additionally, Columbia has agreed to reduce mutual fund fees by a total of \$80 million over the next five years, a reduction that will be spread over that period. Fleet has also announced that five Columbia employees put on leave last month have been terminated.

The SEC and the New York Attorney General charges focused on mutual fund trading activity from 1998 to 2003. A large majority of the market timing trades occurred prior to the acquisition of Fleet in late 2001 of several investment advisors owned by Liberty Financial.

For additional information on Columbia Management, please visit their Web site at [www.columbiafunds.com](http://www.columbiafunds.com).

#### **Federated Investors (Updated 2/6/04)**

Federated's internal review has indicated that frequent trading did occur in seven funds through arrangements with Canary Capital Partners LLC, or other related entities, from late January to early July 2003. It was also noted that two additional advisors had made arrangements for frequent trading within two Federated funds. To date, if late trading occurred, Federated's review has uncovered no evidence that the Company or any of its employees had agreements to permit late trading in any variable net asset value funds. Federated is reviewing all of these occurrences to determine if any harm was caused to the fund.

Federated also announced the resignations of officers involved with frequent trading activity and one officer that had deleted e-mails relevant to the investigation. Federated has also enhanced training and monitoring procedures to address these issues.

Federated Investors had received detailed requests for information on shareholder trading activities from the Securities and Exchange Commission, the New York Attorney General and the National Association of Securities Dealers. The company retained the law firms of Reed Smith LLP and Davis Polk & Wardwell to conduct the internal investigation.

On February 3, 2004, Federated Investors announced that a special committee of its Board of Directors had completed its assessment of the impact of past mutual fund trading issues. As a result of this review, the company also announced a number of remedial actions.

The Independent Trustees of the Federated mutual funds and the company's Board announced the establishment by Federated Investors of a restoration fund

of approximately \$7.6 million. The Independent Trustees have not yet determined how to distribute the restoration funds and no government agency has passed on the establishment or amount of the restoration fund. The amount does not include fines, penalties or other amounts that may be sought by governmental agencies or through claims asserted in private litigation.

The \$7.6 million figure includes: (1) approximately \$4.8 million related to the detrimental impact on the funds from frequent trading activity, (2) approximately \$2 million related to the possible detrimental impact on the funds that may have resulted from orders incorrectly accepted by Federated employees after the funds' closing times, (3) fees of approximately \$420,000 received by the company from assets invested as a result of frequent trading arrangements, and (4) approximately \$355,000 of interest on these amounts.

Separately, Federated is sanctioning two company officers who, under the belief that such trading would not be detrimental to the funds involved, permitted frequent trading by one hedge fund investor that was previously reported.

For additional information on Federated Investors, please visit their Web site at [www.federatedinvestors.com](http://www.federatedinvestors.com).

#### **Franklin Templeton Investments (Updated 2/6/04)**

On February 4, 2004, Franklin Resources, Inc. announced that it had received an administrative complaint filed by the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts against Franklin Resources, Inc. regarding three round trip investments made by a single investor in Franklin Small Cap Growth Fund I (now known as Franklin Small-Mid Cap Growth Fund).

The complaint arises from activity that occurred in 2001 during which time an officer of a company subsidiary proposed an agreement with an investor. This proposal was unauthorized and was rejected by management. This is the same individual, as the company had previously disclosed, had been placed on administrative leave and has subsequently left the company.

Franklin Resources has also identified some instances of frequent trading in shares of some of their mutual funds by a few current or former employees in their personal 401(k) plan accounts. These individuals include one trader and one officer of their funds. These two individuals have been placed on administrative leave and the officer has resigned from his position with the funds.

Franklin Templeton supports strict compliance with and vigorous enforcement of laws and policies regarding the trading and valuation of mutual fund shares.

There are a number of reform initiatives currently under discussion. Franklin Templeton fully supports new regulations that will add clarity and consistency across the industry.

For additional information on Franklin Templeton, please visit their website at [www.franklintempleton.com](http://www.franklintempleton.com).

**INVESCO Funds Group (Updated 1/16/04)**

AIM Advisors (AIM) and INVESCO Funds Group (IFG) have, like many other fund companies, received detailed requests for information on shareholder trading activities from the Securities and Exchange Commission (SEC) and of the Office of the New York Attorney General (NYAG). AIM and IFG are cooperating fully with these regulators and, at the same time, are conducting an internal review of these issues with the guidance and assistance of independent outside counsel, which is ongoing.

On December 2, 2003 the staff of the SEC and the NYAG advised IFG that it and IFG President and CEO Ray Cunningham are facing civil enforcement actions based on market timing activities by certain investors in its mutual fund shares.

On January 14, 2004, AMVESCAP, the parent company to AIM and IFG released a statement in response to these charges. AMVESCAP's ongoing review found situations in which its procedures designed to protect its funds and their shareholders for the potential adverse impact of frequent trading and illegal trading through intermediaries were not completely effective. These findings were based, in part, on an extensive economic analysis by outside experts retained by AMVESCAP to examine the impact of these activities on its funds.

AMVESCAP's Board of Directors and management are committed to taking action in cooperation, where appropriate, with the Trustees of the AIM/INVESCO Funds. Any mutual fund or its shareholders harmed by these activities will receive full restitution. AMVESCAP will cooperate fully with regulators and other authorities to resolve all issues related to their enforcement actions and regulations.

For additional information on AIM and INVESCO, please visit their Web site at [www.aiminvestments.com](http://www.aiminvestments.com).

### **Janus (Updated 4/30/04)**

In September 2003, the New York Attorney General announced an inquiry into trading practices at a number of mutual fund companies, including allegations of market timing at Janus. While Janus was not named as a defendant, they were mentioned in the complaint as allowing Canary Capital to market time select Janus funds. The complaint alleges that this practice is in contradiction to Janus' stated prospectus policies.

At the request of the funds' Independent Trustees, Ernst & Young LLP will be conducting an independent audit to determine if any shareholders were financially impacted. If so, shareholders will receive restitution. The results of this audit are expected in early 2004. Additionally, Ernst & Young LLP will help develop new controls to prevent such activities from happening again.

On December 19<sup>th</sup>, 2003, the Independent Trustees of the Janus funds and Janus Capital Group Inc. announced restoration of approximately \$31.5 million related to the previously disclosed discretionary frequent trading arrangements. The methodology underlying the restoration amounts and the mechanics of payment, including whether the restoration will be paid to the funds or shareholders have not been determined or agreed by regulators. The restoration amount was determined by the accounting firm of Ernst & Young LLP, which was engaged by the legal counsel for the Independent Trustees of the Janus funds. The amount does not include any additional penalties that may be sought by regulators. Janus Capital Group (JCG) is in preliminary discussions with the regulators concerning ways to resolve the investigative issues.

The \$31.5 million figure includes: (1) net gains of approximately \$22.8 million realized by the discretionary frequent traders, (2) approximately \$2.7 million representing opportunity cost of those gains had they been in the funds, (3) management fees of approximately \$1.0 million received by JCG related to discretionary trading accounts, and (4) waived redemption fees of approximately \$5.0 million.

In addition, the JCG Board of Directors announced the following measures to strengthen its corporate governance initiatives: (1) The Board voted unanimously to appoint independent director Steve Scheid as non-executive chairman, effective January 1, 2004. (2) The Board appointed independent director Robert N. Burt to replace Scheid as chair of the Audit Committee. Scheid will continue to sit on the Audit Committee. (3) The Audit Committee of the Board will retain an independent auditor to perform the ongoing internal audit function for the Company. (4) The Board has recommended the engagement of an independent compliance officer who will report directly to the Independent Trustees of the Janus funds.

On April 20<sup>th</sup>, 2004, the board of directors of JCG announced that CEO Mark Whiston would step down from his positions with the company, its affiliates and



as a member of Janus' board. Steve Scheid, who will continue to serve as chairman of the company's board, will succeed Whiston as CEO. Whiston will remain with Janus in a consulting capacity until year's end.

On April 27<sup>th</sup>, 2004, JCG had reached agreements in principle with the New York and Colorado Attorneys General as well as with the Colorado Division of Securities. Additionally, JCG reached an agreement in principle on monetary terms with the SEC staff, which is subject to approval by the SEC commissioners.

Under the terms of the preliminary agreements, Janus will pay \$50 million, which will be used for investor restoration, \$50 million in civil penalties, which may also be used for shareholder restoration, and \$1.2 million of related payments to the State of Colorado. Additionally, Janus will forego \$25 million of management fees per year over the next five years. While regulators have not yet approved the mechanics of payment, the vast majority of the amounts will directly benefit shareholders of the Janus funds.

For additional information on Janus, please visit their Web site at [www.janus.com](http://www.janus.com).

**MFS (Updated 2/6/04)**

MFS has been informed that the staff of the Boston office of the Securities and Exchange Commission (SEC) intends to recommend to the SEC that a civil enforcement action be brought against MFS alleging, in effect, that the disclosure in certain of MFS' fund prospectuses concerning market timing was false and misleading, and a breach of fiduciary duty.

With respect to market timing, MFS has monitored trading in their international, high yield bond and small cap stock funds to prevent harm to fund performance and disruption to portfolio management. MFS identified and cancelled millions of dollars of trades that MFS believed could harm fund performance and disrupt portfolio management, and also used fair value pricing of portfolio securities to lessen the attraction of the funds to market timers.

Until recently, MFS did not monitor daily the trading activity in 11 domestic large cap stock and high-grade bond funds. MFS believed that daily monitoring with respect to these large and highly liquid funds was unnecessary because MFS concluded that frequent trading in these funds would not be disruptive to portfolio management and harm fund performance. As the mutual fund industry moves to further restrict frequent trading, MFS has decided to monitor trading activity in these 11 funds. MFS now has exchange limits on all 105 funds in the MFS fund family.

On February 5, 2004, MFS announced that it reached settlements with the SEC, the Attorney General of the State of New York and the State of New Hampshire Bureau of Securities Regulation related to administrative proceedings alleging false and misleading information in certain MFS fund prospectuses regarding market timing. MFS Chief Executive Officer John Ballen and President Kevin Parke have also settled administrative proceedings with the SEC. Under the terms of the settlements, MFS and the executives neither admit nor deny wrongdoing.

As part of the settlements, MFS has agreed to pay \$225 million to compensate certain fund shareholders, of which \$50 million is a penalty. The company has further agreed with the Attorney General of the State of New York to reduce fees on the funds it advises by approximately \$25 million annually over the next five years, and with the State of New Hampshire Bureau of Securities Regulation to pay an administrative fine in the amount of \$1 million. Messrs. Ballen and Parke have agreed with the SEC to suspensions for nine and six months, respectively, and have each agreed to pay approximately \$315,000, including \$250,000 in penalty.

Robert J. Manning has been named Chief Executive Officer, President and Chief Investment Officer of MFS. Mr. Manning, who joined MFS in 1984, is a member of the Management Committee and the Board of Directors of MFS and has served as Chief Fixed Income Officer since 2001.

Since abusive trading practices in the mutual fund industry came to light, investigations by the SEC and MFS uncovered evidence that third parties placed illegal late trades in certain MFS funds, without MFS' knowledge and in violation of MFS' contracts with broker/dealers who place such trades. MFS intends to vigorously pursue restitution from the parties responsible for such illegal late trading.

Neither the SEC nor the state complaints alleged that there is any evidence that any MFS employee engaged in any criminal activity, or was knowingly involved in late trading. Nor did the complaint allege that MFS accepted so called "sticky assets", or assets invested in certain funds in exchange for the right to market time other funds.

For additional information on MFS, please visit their Web site at [www.mfs.com](http://www.mfs.com).

### **PBHG Funds (Updated 11/20/03)**

As a result of the well publicized examination of mutual fund firms' policies and practices by government regulators, Pilgrim Baxter & Associates conducted an internal review of its own practices in September 2003. That review, conducted with the assistance of independent experts, has raised questions about decisions the prior management team made before December 2001, when they sought to eliminate all market timing in the PBHG Funds. That review has brought into focus conduct that was not consistent with the highest standards of professional and ethical behavior. Pilgrim Baxter & Associates has brought these matters to the attention of the PBHG Fund Board of Trustees and regulatory authorities. Pilgrim Baxter & Associates has proposed specific actions to resolve the issue.

Most significantly, Harold Baxter and Gary Pilgrim have resigned their management positions with the firm and have accelerated their retirement plans. Mr. Baxter has also resigned his positions of chairman and trustee of the Boards of Trustees of the PBHG Funds and PBHG Insurance Series Fund. David Bullock, President and Chief Executive Officer of Pilgrim Baxter & Associates, LTD has been elected by those Boards to succeed Mr. Pilgrim as president of both the PBHG Funds and the PBHG Insurance Series Fund. Michael Sutton, Pilgrim Baxter's chief investment officer and portfolio manager of the PBHG Large Cap Growth Fund, and Peter Niedland, portfolio manager of the PBHG Emerging Growth Fund, will assume Mr. Pilgrim's portfolio management responsibilities immediately on an interim basis.

At issue is an investment on the part of Mr. Pilgrim in a private investment limited partnership, unaffiliated with Pilgrim Baxter, that actively traded certain PBHG Funds as part of a tactical asset allocation investment strategy during the period from March 2000 to December 2001, when Pilgrim Baxter moved to halt active trading in the PBHG Funds group. Mr. Pilgrim will contribute to the PBHG Funds all personal profits he earned from the limited partnership's investments in the PBHG Funds. The firm will also reimburse to the PBHG Funds management fees earned which were attributable to the limited partnership's investment in the PBHG Funds.

Pilgrim Baxter will retain an independent accounting firm to conduct a separate review of the adequacy of controls and procedures affecting processes and functions critical to the investment management and administration of the PBHG Funds. They have also retained independent counsel to lead its internal review process in order to assure a thorough and independent examination of mutual fund trading practices in the PBHG Funds group, and will present the results to the PBHG Funds' Board of Trustees.

On November 20<sup>th</sup>, the Securities and Exchange Commission and the New York State Attorney General's Office filed charges against Pilgrim Baxter & Associates and its two founders with civil securities fraud and breach of fiduciary duties for permitting improper short-term trades in the firm's mutual funds.

For additional information on PBHG, please visit their Web site at [www.pbhgfunds.com](http://www.pbhgfunds.com).

**PIMCO (Updated 2/20/04)**

The New Jersey Attorney General has brought market-timing civil fraud charges against PIMCO Funds and affiliated company PEA Capital LLC. PEA and PIMCO have been cooperating with the New Jersey officials and an earlier investigation by the SEC regarding a pattern of short term trading in funds by Canary Capital Partners LLC. The trading appears to have lasted for several months but was discontinued at the request of PEA, along with the removal of investments by Canary in October 2002.

The results of an independent review, initiated by Independent Trustees of PIMCO Funds, determined that the company did not have a strategy to solicit short term trading clients, nor were there any instances of employee market timing uncovered. The review also determined that of the four funds involved, shareholders actually benefited from the trading and one Fund had been diluted by less than \$1.2 million. The company has stated that they will compensate the fund for the dilution and rebate all fees received on the trader's assets.

The company will continue to cooperate with the SEC and the New Jersey Attorney General. For additional information on PIMCO, please visit their Web site at [www.pimcoadvisors.com](http://www.pimcoadvisors.com).

**Putnam Investments (Updated 4/9/04)**

The administrative actions that have been brought against Putnam by the Securities and Exchange Commission (SEC) and the Massachusetts Securities Division involve market timing in the Putnam funds. Both the SEC and Massachusetts actions include allegations regarding what appears to be market timing in the personal accounts of a handful of Putnam professionals including four of their portfolio managers.

The four investment professionals are Omid Kamshad, Chief Investment Officer of International Equities; Geir Lode, Portfolio Manager, Global Core Equities; Carmel Peters, Director of Emerging Market Equities; and Justin Scott, Head of Mid Cap, Specialty Growth and Small Cap Core Equities. These four managers are no longer managing money at Putnam and will be leaving the firm.

In addition, the Massachusetts actions include allegations about market timing by plan participants in some Putnam-administered 401(k) plans. In one plan in particular, Putnam faced difficulty curbing the activity of a small group of individuals, and the trading persisted until recently, when Putnam closed the funds in question to all plan participants.

There have also been changes in senior management at Putnam. Charles "Ed" Haldeman has been named President and Chief Executive Officer of Putnam Investments. He will continue in his investment responsibilities. Ed was previously Senior Managing Director and Co-Head of Investments at Putnam. Steven Spiegel, Senior Managing Director and Chief of Global Distribution, has been appointed Putnam's Vice Chairman, a new position. A.J.C. "Ian" Smith, former Chairman and Chief Executive Officer of Marsh & McLennan Companies, has been named to the new post of Chairman of Putnam. Lawrence J. Lasser, the company's President and Chief Executive Officer since 1986 has left the company.

On November 13<sup>th</sup>, 2003, Putnam confirmed that it had reached agreement with the Securities and Exchange Commission in the administrative cease-and-desist proceedings focusing on Putnam's failure to disclose or control excessive short-term trading by certain Putnam employees. Under the terms of the order, Putnam will institute a number of remedial actions. These include new employee trading restrictions, enhanced employee trading compliance, and oversight by an independent third party and the SEC of the calculation of the amount of restitution to be made by Putnam for losses attributable to excessive short-term trading by Putnam employees. The actions also include the retention of an independent compliance consultant, the undertaking of periodic compliance reviews, and certification of compliance with the SEC. The order also contemplates civil monetary penalties to be determined at a later date. Certain best practices in corporate governance are also part of the agreement. Under the order, the SEC made certain findings of fact and violations, which Putnam neither admitted nor denied.

On January 27<sup>th</sup>, 2004, Putnam Investments announced a series of initiatives that will reduce shareholder costs and provide investors with enhanced information. Putnam will limit expense ratios on 100% of its funds to below the average industry expense ratio in the appropriate Lipper peer group. Putnam will also reduce the front-end sales charges for class A shares and will reduce the maximum purchase limit of class B shares to trades under \$100,000.

Putnam has also announced that they will be placing a maximum limit on total expenses, including management fees, for certain international and global mutual funds that had short-term trading issues. Expenses will be capped at the level of September, 2003, prior to the announcement of the trading issues, so that expense ratios do not increase for shareholders following the drop in assets that

has occurred. The funds are: Putnam International Equity Fund, Putnam Global Equity Fund, Putnam International New Opportunities Fund, Putnam International Capital Opportunities Fund, Putnam Europe Equity Fund and Putnam International Growth & Income Fund.

In addition to cutting costs, Putnam will enhance the disclosure of breakpoint discounts and commissions paid by funds to brokers for portfolio transactions. Putnam will also disclose the aggregate amount of each Putnam fund that is owned by Putnam employees and trustees, as well aggregate employee and trustee holdings of all Putnam funds.

On April 8<sup>th</sup>, 2004, Putnam confirmed that it had reached settlement agreements with the SEC and the Office of the Secretary of the Commonwealth of Massachusetts in the administrative and cease-and-desist proceedings focusing on market timing in Putnam mutual funds. Under the terms of the SEC agreement, Putnam will pay \$5 million in disgorgement and a \$50 million penalty, all of which will be distributed to shareholders in the funds. According to the agreement with the Office of the Secretary of the Commonwealth of Massachusetts, Putnam will pay \$5 million in restitution to shareholders in the funds and a \$50 million penalty to the Commonwealth of Massachusetts.

According to the agreements, an independent consultant will determine the amount and method of disbursement of all monies to be distributed to shareholders. Disbursements will be made as quickly as possible following the completion of the work being done by the independent consultant. All costs, including reimbursement, civil penalties, and associated legal fees, will be paid by Putnam management and not by investors in any fund. The agreements relate only to market timing issues with the SEC and the Commonwealth of Massachusetts. Other regulatory inquiries remain ongoing and Putnam continues to fully cooperate with such inquiries.

For additional information on Putnam Investments, please visit their Web site at [www.putnam.com](http://www.putnam.com).

**Strong (Updated 12/03/03)**

In September, the New York Attorney General announced an inquiry into trading practices at a number of mutual fund companies, including allegations of market timing at Strong. Allegations were also reported about the personal investing activities of Richard Strong, Chairman of Strong Financial Corporation. Although Mr. Strong does not believe that his transactions were disruptive to any of the funds in which he invested, he has committed to personally compensate the funds for any financial losses that may have experienced as a result of these transactions.

Strong also has pledged to make appropriate reimbursement if it is determined that the transactions by Canary Capital, the hedge fund named in the Attorney

General's complaint, caused financial harm to any of the four Strong mutual funds in which that hedge fund invested.

Richard Strong has resigned as Chairman of the Strong Mutual Funds' Board of Directors. In addition, the company has retained David S. Ruder and Richard C. Andersen, who have extensive experience with the SEC, to review the structure and implementation of compliance procedures, advise on their adequacy and recommend additional systems, policies, and procedures, as necessary.

On December 2, 2003 Richard Strong also resigned as chairman, chief executive officer and chief investment officer of Strong Financial Corporation (Strong). Replacing him will be Kenneth J. Wessels, former president of the Dain Rauscher Wessels Capital Markets division and director of Dain Rauscher Corp. Richard T. Weiss, a Strong portfolio manager, will lead Strong's investment department. Mr. Strong will be taking steps to divest himself of voting control of the firm.

For additional information on Strong, please visit their Web site at [www.strong.com](http://www.strong.com).

#### ***How Nationwide Financial Is Responding***

Nationwide is monitoring developments in the industry and at specific fund companies. In light of the ongoing investigations, we are involved in the following:

- Conducting ongoing communication between our Investment Research & Analysis group and employees at mutual fund companies. This communication includes participating in conference calls, reviewing company statements, meeting with fund company representatives and visiting fund company offices.
- Performing due diligence with certain mutual fund firms that have been named in these investigations. This includes conference calls and site visits at the mutual fund companies.
- Monitoring industry developments, that include proposals, to address mutual fund trading abuses.
- Reviewing events with fund research organizations, rating firms and other industry professionals.

Our Investment Research & Analysis group has placed certain mutual fund firms or products on "watch". Watch status is one of intensified due diligence as a

result of deviation from the basic tenants upon which original selection was based.

We have placed the following investment products and mutual fund families on watch:

Investment Products

- Alliance Technology Fund
- Putnam Global
- Putnam International

Mutual Fund Families

- Strong – All Investment Products
- PBHG – All Investment Products

***In Summary***

While we hope the worst is behind us, we anticipate continued development and more news in the future. The New York Attorney General and the Securities and Exchange Commission are continuing their investigations. Several companies are also conducting their own investigations.

This may be an unsettling time for investors. Now, more than ever, investors are looking to financial professionals for guidance in these uncertain times. Changes to an investor's portfolio should reflect a disciplined decision-making process rather than an immediate reaction, or no reaction. As a financial professional or retirement plan sponsor, you may want to consider the following:

- Review all available information that has emerged beyond the newspaper headlines. This can include fund company Web sites, company statements and published analysis to help ensure that you are in a position to make a fully informed decision. Events are rapidly evolving and information is changing daily. It is too soon to determine the extent or scope of trading problems in the industry or at specific mutual fund companies.



- Evaluate facts and circumstances unique to each investor's portfolio or retirement plan offering. Are similar investment options available? How does the current fund help meet investment objectives?
- Evaluate the ability of the fund manager to deliver strong performance prospectively. Have there been changes to the portfolio management team? Have there been significant organizational changes? Is the company's leadership team experienced and stable?
- Consider transaction costs and tax implications associated with any changes.
- Assess the commitments made by each fund company to remedy damages as a result of these investigations.
- Determine if the fund company is committed to establishing and maintaining a strong compliance environment that places the interests of its shareholders first.

Nationwide is committed to providing world-class money managers and high quality investment options in all of our products. We strive to provide breadth and depth within our investment offerings that can help financial professionals and investors build well-diversified portfolios. We will continue to monitor developments in the industry and at mutual fund companies and will take appropriate action as warranted.

Please contact your Nationwide representative or visit our Web site at [www.NRSforU.com](http://www.NRSforU.com) for additional information.